



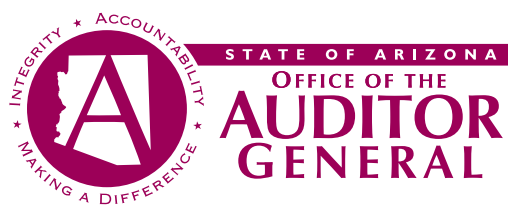
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Kingman Unified School District No. 20

Year Ended June 30, 2002



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

April 1, 2004

Governing Board
Kingman Unified School District No. 20
3033 MacDonald Avenue
Kingman, AZ 86401

Members of the Board:

We have reviewed the District's single audit reports and *Uniform System of Financial Records* (USFR) Compliance Questionnaire for the year ended June 30, 2002, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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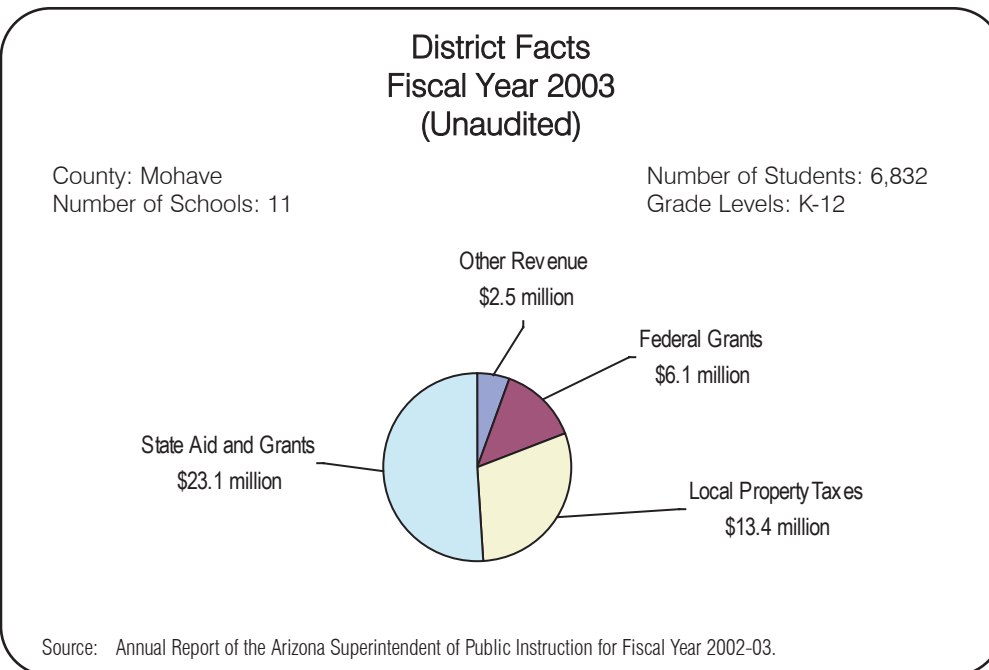
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INTRODUCTION

Kingman Unified School District No. 20 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$45 million it received in fiscal year 2002-03 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2002, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

The District may not have received the best value possible for goods and services, as it did not always issue invitations for bids and obtain written and oral price quotations when required.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$32,700.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,700.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public money they spend. However, the auditors found the District did not always follow the School District Procurement Rules or the USFR guidelines. For example, the District did not always obtain competitive sealed bids. In cases when the District did obtain competitive sealed bids, it did not always retain the invitations for bids and prospective bidders' lists, or stamp the bid envelopes with the date and time received. In addition, the District did not follow USFR guidelines as it did not always obtain oral or written price quotations for purchases requiring them.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids for purchases of construction, materials, or services exceeding \$32,700.
- Maintain a prospective bidders' list.
- Retain the invitations for bids issued and the date- and time-stamped envelopes.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,700. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

The District should improve controls over cash receipts and bank accounts

The District receives cash for extracurricular activities fees tax credits, student activities, and day care services. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash and ensure that it is promptly and accurately recorded and deposited.

These controls should require district employees to deposit monies at least weekly and reconcile the bank accounts monthly. However, the auditors reported that the District did not always deposit monies in a timely manner or reconcile the bank statements to the District's records. In addition, the District did not maintain accurate records of day care monies received and the amounts due for children enrolled in day care.

The District did not adequately safeguard cash receipts as it did not deposit extracurricular activities fees tax credits, student activities, and day care monies in a timely manner.

Recommendations

To help strengthen controls over monies received and bank accounts, the District should:

- Deposit cash receipts intact daily, when significant, or at least weekly.
- Prepare written reconciliations monthly for all bank accounts. Make all corrections necessary for errors noted.
- Maintain supporting ledgers or spreadsheets for each child in day care in order to calculate the amounts due and paid.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

The District should maintain accurate student attendance records

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document entry and withdrawal dates, attendance, and absences. However, the District did not accurately record entry and withdrawal dates in its attendance records. In addition, incorrect membership and attendance days for the 100th day were reported to ADE for grades 10, 11, and 12 at Kingman High School North.

Recommendations

To help ensure that accurate membership and attendance days are reported, the District should record and report attendance in accordance with ADE's *Instructions for Required Reports*. The District should assign an employee to verify that totals reported to ADE agree with the District's attendance records and are calculated accurately. In addition, a second employee should verify that student entry and withdrawal dates on the forms agree with those in the District's attendance records.

The District's expenditure budget and annual financial report should be accurate and complete

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. To help provide that information, the District is required to prepare an expenditure budget and annual financial report (AFR) that includes information compiled from the District's accounting records. The expenditure budget and AFR should provide accurate information to the public and agencies from which the District receives funding.

However, the auditors found that the District did not provide accurate and complete information in its expenditure budget and AFR. For example, the District did not prepare a required expenditure budget work sheet. In addition, numerous actual and budgeted revenues reported in the District's AFR did not agree with the District's accounting records and revenue budget.

Recommendations

To help ensure accurate and complete reporting of financial information in its expenditure budget and AFR, the District should:

- Complete all the required forms and work sheets that comprise the expenditure budget.
- Ensure that the accounting records include all revenues, expenditures, transfers, and adjustments before preparing the AFR.
- Require a second employee to verify that the amounts reported on the AFR agree with the accounting records and revenue budget before it is submitted to ADE.

The District's controls over expenditures should be strengthened

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that its purchases are properly approved and adequately supported. However, the District was lax about following those procedures. For example, the District did not always prepare purchase orders, and some purchase orders were prepared after goods or services were ordered. In addition, receiving reports were not always prepared and vendor invoices were not always retained.

Recommendations

To strengthen controls over its expenditures, the District should follow the procedures listed below:

- Prepare prenumbered purchase orders and obtain approval from an authorized employee prior to ordering goods and services.
- Have an employee who is not involved in purchasing prepare receiving reports for all items received, indicating the date and quantity received, the items' condition, and the signature of the employee receiving the items. If the District uses a copy of the purchase order as a receiving report, eliminate the quantities ordered before providing it to the employee receiving the items to help ensure that the receiving employee performs an independent count of items received.
- Retain documentation supporting all expenditures.